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SUBJECT: President Karzai Inaugurates USAID-funded Kabul Diesel
Power Plant

REF: Kabul 2363

Summary

¶1. (U) President Karzai and Energy and Water Minister Ismail Khan presided over the inauguration of the first phase of Kabul's USAID-financed 105 Megawatt (MW) diesel-fired power plant near Kabul on August 5. President Karzai thanked Ambassador Eikenberry, USAID Director Frej, and the U.S. people for the US\$ 300 million plant that, will provide backup power to more than half a million Kabul residents during winter peak use once completed in December 2009. Looking ahead, the Afghan government seeks to diversify their energy matrix to exploit Afghanistan vast hydro and hydrocarbon potential. End summary.

¶2. (U) The Kabul 105MW "Tarakhil" high-efficiency diesel-fired power plant will provide power to more than half a million Afghans when the project is completed later this year. Construction of the US\$ 300 million USAID-funded project began in 2007, and the initial phase of the project (powered up on August 5) will provide 35MW of power to over 200,000 residents of Kabul. When complete, the plant will include 18 diesel engines, each providing approximately 6.3MW. The first six engines have been installed, and the remaining 12 engines are scheduled to become operational by December 2009, in time to provide energy through winter's high-demand. The plant will provide an estimated 150 permanent Afghan jobs (including a number of skilled technical positions); at peak construction, the project employed 500 Afghans.

¶3. (U) The televised dedication ceremony featured speeches by President Karzai, Energy and Water Minister Ismail Khan, and Ambassador Eikenberry. President Karzai thanked the Ambassador and the people of the United States for their "investment in Afghanistan." In his response, the Ambassador reminded his audience of the situation eight years ago, when there was "darkness across Kabul and Afghanistan...darkness from political oppression, intolerance and isolation--and a literal darkness due to the absence of critical infrastructure--including electricity." By contrast, he continued, Afghanistan is now in the process of its first Afghan-led elections, and the U.S. people are proud of their contributions to Afghanistan's development future through projects like Tarakhil.

The Way Forward for Tarakhil

¶3. (U) USAID's prime contractor, Louis Berger/Black & Veatch Joint Venture (LBG/B&V), is committed to a December 2009 deadline to complete the entire plant. A variety of subcontracts still require approval, and USAID must also modify the contract budget to reflect actual (higher than expected) spending trends.

¶4. (U) An important component of the project involves training Afghans to operate the plant. An initial group of thirteen utility staff are currently being trained in plant operations and maintenance through April of next year, with another twenty-seven to be added to the course over time. In addition, utility staff will be trained in sub-station management and engine maintenance. When

the USAID contract ends in April 2010, the electrical utility will likely hire these staff.

Comment

¶5. (SBU) According to the most recent estimates, Afghanistan has an installed grid-connected capacity of almost 700MW, of which 400MW are operating. Only twenty percent of the population has access to grid-supplied public power, however, and often only on certain days for a limited number of hours. Although Kabul has only fifteen percent of Afghanistan's population, it accounts for over forty percent of the country's 1.6 million MWh of electricity consumption. Isolated diesel generation (from private generators) has increased dramatically since 2002 and will continue to play a large role in power supplies, especially in rural areas. Diesel generators are among the most costly sources of electricity at over forty cents per KWh (by comparison, imported power and existing hydro dams provide power at less than ten cents per KWh.)

¶6. (SBU) Intended primarily as back-up during peak-use times, Tarakhil's electricity production falls in the middle of this price range at an estimated 26 cents per KWh. Kabul electricity users do not pay this price, however, because the GIROA subsidizes electricity from the grid. The government's inability to charge grid users based on level of use creates an additional de-facto subsidy through illicit consumption (in Kabul, the electricity utility DABS is only able to charge for about 50 percent of commercial and residential use and only 60 percent of government use.) For these reasons, the energy sector is currently a major drain on government resources. Illicit or unmetered use also

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encourages inefficiency because users do not pay the real price for what they use. The GIROA has agreed to phase out electricity subsidies over the next five years, and USAID is working with the Ministry of Energy and Water to commercialize the electricity sector to increase efficiency and decrease the sector's drain on government coffers.

¶7. (SBU) Diesel power plants are relatively costly and dependent on imported fuel supplies and so potentially vulnerable to insurgent sabotage. To diversify its energy sources and expand national energy production in line with the Afghan National Development Strategy, the Inter-Ministerial Commission for Energy (ICE) and international donor community are investigating "homemade" energy sources such as hydro, hydrocarbons, and renewables (wind, solar, and micro-hydro). Afghanistan's northern gas fields in Jawzjan province have attracted interest from large international investors, and the Aynak copper mine contract requires China Metallurgical to build a 400MW coal-fired power plant to support the mine (and to provide 200MW to the Afghan national grid). Moreover, the GIROA is intent on harnessing Afghanistan's hydropower (septel). Diversification will improve Afghanistan's power situation but also require increased donor participation to build Afghan capacity. End comment.

Eikenberry